STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

FINANCIAL AUDIT
For the Year Ended June 30, 2009

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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
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For the Year Ended June 30, 2009

AGENCY OFFICIALS

Director	Barry S. Maram
Assistant Director	Sharron Matthews
General Counsel	Kyong Lee (Acting 7/1/08 – 6/1/09) Jeanette Badrov (6/1/09 – Current)
Inspector General	John C. Allen
State Purchasing Officer	Tom Sestak (Acting)
Division of Finance, Administrator	Michael Moss
Office of Fiscal Management, Chief	Jack Dodds

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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2009

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois Department of Healthcare and Family Services' Teacher Health Insurance Security Fund was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the Teacher Health Insurance Security Fund's financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 17-22 of this report as finding 09-1 (Financial statement preparation) and 09-2 (Incorrect health insurance premium rates charged). The auditors also considered finding 09-1 to be a material weakness.

EXIT CONFERENCE

The financial audit findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 8, 2010.

The responses to the recommendations were provided by Jamie Nardulli, External Audit Coordinator, on April 15, 2010.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

We have audited the accompanying financial statements of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Healthcare and Family Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2010 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Teacher Health Insurance Security Fund and on our tests of the State of Illinois, Department of Healthcare and Family Services' compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Schedule of Funding Progress for the year ended June 30, 2009 and the Schedule of Contributions from Employers and Other Contributing Entities for the year ended June 30, 2009 on pages 13-14 are not a required part of the financial statements of the Teacher Health Insurance Security Fund but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The State of Illinois, Department of Healthcare and Family Services has not presented a management's discussion and analysis for the Teacher Health Insurance Security Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Bruce L. Bullard

Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

April 15, 2010

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
STATEMENT OF PLAN NET ASSETS
June 30, 2009

(amounts expressed in thousands)

Assets	
Cash and short-term investments	$ 73,891
Receivables	
Employer	3,773
Employee	5,031
Federal government	6,175
Interest	39
Other receivables	4,905
Total receivables	19,923
Total assets	93,814
Liabilities	
Accounts payable and other	38,947
Intergovernmental payables	2
Due to other funds	184
Short-term compensated absences	1
Total current liabilities	39,134
Long-term compensated absences	77
Total liabilities	39,211
Net assets held in trust for other postemployment benefits	$ 54,603

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2009

(amounts expressed in thousands)

Additions	
Contributions	
Employer	$ 66,312
State	75,474
Plan member:	
Actives	88,416
Retirees	148,726
Federal government Medicare Part D	22,285
Consolidated Omnibus Budget Reconciliation Act	220
Total contributions	401,433
Interest income	1,388
Total additions	402,821
Deductions	
Benefit payments	408,243
Administrative expense	2,220
Total deductions	410,463
Net increase/(decrease)	(7,642)
Net assets held in trust for other postemployment benefits	
Beginning of year	62,245
End of year	$ 54,603

The accompanying notes to the financial statements are an integral part of this statement.

The Teacher Health Insurance Security Fund (also known as The Teacher Retirement Insurance Program, "TRIP") is a non-appropriated trust fund held outside the State Treasury, with the State Treasurer as custodian. Revenues deposited into the Trust are for the sole purpose of providing the health benefits to retirees, as established under the plan, and associated administrative costs. TRIP is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of participating school districts throughout the State of Illinois, excluding the Chicago Public School System. TRIP health coverage includes provisions for medical, prescription, and behavioral health benefits, but does not provide vision, dental, or life insurance benefits. Annuitants may participate in the State administered Preferred Provider Organization plan or choose from several managed care options. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) establishes the eligibility and benefit provisions for the plan. The Illinois Departments of Healthcare and Family Services (HFS) and Central Management Services (CMS) administer the plan with the cooperation of the Teachers Retirement System (TRS).

In order to be eligible, retirees of public schools must have been certified educators or administrators during their time of employment. Eligibility to participate in the plan is currently limited to former full-time employees, or if not a full-time employee, an individual that is in a permanent and continuous basis in a position in which services are expected to be rendered for at least one school term, and their dependents.

A. Summary of Significant Accounting Principles

Basis of Accounting: TRIP's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and cash in banks for locally held funds. Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash.

Investments/Deposits: The investments are in the State Treasury Investment Pool (Illinois Funds). Investments are reported at fair value.

Compensated Absences: The liability for compensated absences reported in the statement of plan net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method in which leave amounts, for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

Use of Estimates: The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Contribution Information

Membership of the plan consisted of the following at June 30, 2009:

Retirees and beneficiaries receiving benefits	65,543
Waived retirees who may elect healthcare coverage in the future	15,984
Terminated plan members entitled to but not yet receiving benefits thru TRIP	7,836
Terminated plan members entitled to but not yet receiving benefits thru other TRS plans	8,031
Active plan members	164,797
Total	262,191
Number of participating employers	1,007

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires that all active contributors of the Teachers' Retirement System (TRS), who are not employees of a department, make contributions to the plan at a rate of .84% of salary and for every employer of a teacher to contribute an amount equal to .63% of each teacher's salary. Beginning July 1, 2007, HFS will determine, by rule, the percentage required, which each year shall not exceed 105% of the percentage of salary actually required to be paid in the previous fiscal year.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) requires that the HFS Director determine the rates and premiums for annuitants and dependent beneficiaries and establish the cost-sharing parameters, as well as funding. Member premiums are set by this statute, which provides for a subsidy of either 50% or 75%, depending upon member benefit choices. Dependents are eligible for coverage, at a rate of 100% of the cost of coverage.

For the year ended June 30, 2009, member annuitants (including their dependent beneficiaries) contributed $148.7 million, or approximately 39.24% of total premiums, through their required contributions. Member required contributions ranged from $69.30 to $180.44, per month per retiree, and from $321.39 to $541.33, per month per retiree and spouse (assuming Medicare eligibility). For non-Medicare eligible members, required contributions ranged from $56.47 to $621.93, per month per retiree, and from $282.37 to $1,865.78, per month per retiree plus dependents. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires active teachers contribute .84% of salaries; they contributed $88.4 million, or approximately 23.33% of total premiums. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) also requires participating school districts contribute .63% of salaries; they contributed $66.3 million, or approximately 17.50% of total premiums. In addition, the State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires the State contribute .84% of salaries; they contributed $75.5 million, or approximately 19.93% of total premiums. The fund received $22.3 million in Medicare Part D subsidy payments from the federal government.

C. Deposits and Investments

Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit with the State Treasurer totaled $68,254 thousand at June 30, 2009.

Investments

As of June 30, 2009, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

	Fair Value (Thousands)	Book Value (Thousands)	Weighted Average Maturity (Years)
State Treasury Investment Pool (Illinois Funds)	$ 5,637	$ 5,637	0.048
Total fixed income investments	$ 5,637	$ 5,637	

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The State Treasury Investment Pool (Illinois Funds) were rated AAAm by Standard & Poor's.

D. Status and Funding Progress - OPEB Plans

The funded status of the plan as of the most recent actuarial valuation date available as of June 30, 2009, is as follows (amounts expressed in thousands):

Actuarial Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/09	$54,603	$14,931,396	$14,876,793	.37%	$8,428,359	176.51%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

The accompanying Schedule of Contributions from Employers and Other Contributing Entities presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date	6/30/09
Actuarial Cost Methods	Projected Unit Credit
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Inflation Rate	3.5%
Amortization Period	Open
Investment Rate of Return*	4.5%
Healthcare Cost Trend Rate	9% grading down .5% per year over 8 years to 5% Initial 5% Ultimate

* Determined as a blended rate of the expected long-term investment returns on plan assets based upon the funded level of the plan as of the valuation date.

E. Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2009, were as follows:

	Balance July 1, 2008	**Additions**	**Deletions**	**Balance June 30, 2009**	**Amounts Due Within One Year**
Compensated Absences	$ 70	$ 50	$ 42	$ 78	$ 1
Total	$ 70	$ 50	$ 42	$ 78	$ 1

F. Commitments and Contingencies

The Department is a party to numerous other legal proceedings, many of which normally occur in the course of operations. These proceedings are not, in the opinion of the Department's legal counsel, likely to have a material adverse impact on the Department's financial position. In the event a material action is settled against the Department, such amounts would be paid from future appropriations or by another State agency. Accordingly, no amounts have been provided in the accompanying financial statements related to outstanding litigation.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2007	$ 65,790	$ 14,284,678	$ 14,218,888	0.46%	$ 7,785,458	182.63%
6/30/2009	$ 54,603	$ 14,931,396	$ 14,876,793	0.37%	$ 8,428,359	176.51%

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES
(amounts expressed in thousands)

Year Ended June 30	Annual Required Contribution	State Contributions	State Percentage Contributed	Employer's Contributions	Employer's Percentage Contributed	Medicare Part D Contributions	Medicare Part D Percentage Contributed
2007	$ 1,013,794	$ 75,839	7.48%	$ 58,191	5.74%	$ 17,026	1.68%
2008	$ 1,059,415	$ 68,596	6.47%	$ 63,458	5.99%	$ 19,930	1.88%
2009	$ 1,145,505	$ 75,474	6.59%	$ 66,312	5.79%	$ 22,285	1.95%

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

We have audited the Teacher Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2009, and have issued our report thereon dated April 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Teacher Health Insurance Security Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in finding 09-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in finding 09-2 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' Teacher Health Insurance Security Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters which we have reported to management of the State of Illinois, Department of Healthcare and Family Services in a separate letter dated April 15, 2010.

The State of Illinois, Department of Healthcare and Family Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Healthcare and Family Services' responses and, accordingly, we express no opinion on it.

Bruce L. Bullard

Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

April 15, 2010

09-1. **FINDING** (Financial statement preparation)

The Illinois Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) contained weaknesses and inaccuracies. These problems, if not detected and corrected, could materially misstate the Teacher Health Insurance Security Fund's (Fund) financial statements. In addition, financial reporting was not timely.

During our audit of the June 30, 2009 Fund's financial statements, we noted:

- The GAAP Reporting Package was not submitted to the Comptroller in a timely manner. The GAAP Reporting Package was submitted to the Comptroller 10 days late. In addition, the Comptroller submitted to the Department review comments for the GAAP Reporting Package on September 28, 2009; however, the Department did not provide a response to those review comments until October 23, 2009. Further, a complete set of the Fund's financial statements **was not** provided to the auditors **until** February 19, 2010, seven and a half months **after** the year end.

- To complete the Fund's financial statements, the Department was required to obtain and include in the Fund's financial statements actuarial valuations for purposes of complying with the requirements of Statement No. 43 of the Governmental Accounting Standards Board. These actuarial valuations **were not** available to the auditors **until** January 8, 2010.

- We noted weaknesses in the financial accounting for, and reporting of, revenue and expense accounts. Specifically, the Department incorrectly classified employer contributions and member contributions resulting in an adjustment totaling $8.531 million. The Department also did not correctly calculate revenues and expenses resulting in an overall adjustment totaling $1.782 million to reduce revenues and expenses.

The Comptroller requires State agencies to prepare GAAP Reporting Packages to assist in the annual preparation of the Statewide financial statements and the Fund's financial statements. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) (Chapter 27). The Comptroller also sets due dates for the financial information to be submitted in order for the Statewide financial statements to be prepared and audited within a specified timeline to provide the financial statements to users in a timely manner.

In addition, Concepts Statement of Governmental Accounting Standards Board (GASBCS 1, paragraph 66) states "if financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had."

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

The Department stated that the overall complexity of the group insurance financial statements combined with the reliance on inexperienced staff and related loss of institutional knowledge of this fund contributed to the lack of timeliness in submitting the GAAP Reporting package and the related misstatements. In addition, the GASB 43 valuation was not completed until January 7, 2010 despite the cooperative efforts between the Department, the Teachers Retirement System and the contracted actuary.

Failure to implement appropriate internal controls and provide timely financial information could lead to future misstatements of the State-wide and the Fund's financial statements. (Finding Code No. 09-1)

RECOMMENDATION

We recommend the Department implement additional internal control procedures to ensure GAAP Reporting Packages are prepared in an accurate and timely manner.

DEPARTMENT RESPONSE

The Department accepts the finding. The Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy. As an ongoing effort the Department continues to strive to meet the mandated deadlines, which resulted in the GAAP Reporting Package being submitted in a more timely manner this year than in prior years.

09-2. **FINDING** (Incorrect health insurance premium rates charged)

The Illinois Department of Healthcare and Family Services (Department) did not charge the correct health insurance premium rates for the Teachers' Retirement Insurance Program.

The Department set the fiscal year 2009 health insurance premium rates for Teachers' Retirement System benefit recipient and dependent beneficiaries by increasing the prior year rate by 5%. The Department did not take into account the percentage that was to be paid by the Teacher Health Insurance Security Fund. As a result, we noted that the Department did not have an adequate rate-setting methodology used to determine the amount of the health care premiums to be charged. In addition, the Department did not present the rate-setting methodology (included but not limited to utilization levels and costs) used to determine health care premiums to the Teachers' Retirement System by April 15th as required.

We also noted the following 2009 premium rates of Teachers' Retirement Insurance Program health insurance were not in compliance with parameters established in State statute.

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages twenty-three through sixty-four selecting the medical coverage program was $206.77; however, the health insurance premium rate should have only been $205.12. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e) and (e)(1)) requires that the Teacher Health Insurance Security Fund pay 75% of the total insurance rate for this type of coverage. This means that the health insurance premium rate charged to a recipient should only be 25% of the insurance rate; however, State statute also requires the premium charged may not exceed 105% of the premium actually charged in the previous fiscal year. The insurance rate determined by the Department for this category was $820.49. The health insurance premium rate charged in fiscal year 2008 to the Teachers' Retirement System benefit recipients in this category was $196.92. The benefit recipients were overcharged a total of $19,744 during fiscal year 2009.

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages sixty-five and over selecting the medical coverage program was $310.97; however, the health insurance premium rate should have only been $307.38. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e) and (e)(1)) requires that the Teacher Health Insurance Security Fund pay 75% of the total insurance rate for this type of coverage. This means that the health insurance premium rate charged to a recipient should only be 25% of the insurance rate; however, State statute also requires the premium charged may not exceed 105% of the premium actually charged in the previous fiscal year. The insurance rate determined by the Department for this category was $1,229.52. The health insurance premium rate charged in fiscal year 2008 to the Teachers' Retirement System benefit recipients in this category was $296.16. The benefit recipients were overcharged a total of $6,570 during fiscal year 2009.

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages twenty-three through sixty-four selecting the major medical coverage program was $413.53; however, the health insurance premium rate should have only been $410.25. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e) and (e)(2)) requires that the Teacher Health Insurance Security Fund pay 50% of the total insurance rate for this type of coverage. This means that the health insurance premium rate charged to a recipient should only be 50% of the insurance rate; however, State statute also requires the premium charged may not exceed 105% of the premium actually charged in the previous fiscal year. The insurance rate determined by the Department for this category was $820.49. The health insurance premium rate charged in fiscal year 2008 to the Teachers' Retirement System benefit recipients in this category was $393.84. The benefit recipients were overcharged a total of $297,703 during fiscal year 2009.

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages sixty-five and over selecting the major medical coverage program was $621.93; however, the health insurance premium rate should have only been $614.76. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e) and (e)(2)) requires that the Teacher Health Insurance Security Fund pay 50% of the total insurance rate for this type of coverage. This means that the health insurance premium rate charged to a recipient should only be 50% of the insurance rate; however, State statute also requires the premium charged may not exceed 105% of the premium actually charged in the previous fiscal year. The insurance rate determined by the Department for this category was $1,229.52. The health insurance premium rate charged in fiscal year 2008 to the Teachers' Retirement System benefit recipients in this category was $592.31. The benefit recipients were overcharged a total of $61,103 during fiscal year 2009.

- The monthly health insurance premium rate charged to a Teachers' Retirement System dependent beneficiary who is Medicare primary was $252.09; however, the health insurance premium rate should have only been $232.43. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e) and (e)(3.1)) requires that the Teacher Health Insurance Security Fund pay 25% of the total insurance rate for this type of coverage. This means that the health insurance premium rate charged to a recipient should only be 75% of the insurance rate; however, State statute also requires the premium charged may not exceed 105% of the premium actually charged in the previous fiscal year. The insurance rate determined by the Department for this category was $309.90. The health insurance premium rate charged in fiscal year 2008 to the Teachers' Retirement System dependent beneficiary in this category was $240.09. The benefit recipients were overcharged a total of $499,914 during fiscal year 2009.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e)) requires the Director of the Department of Central Management Services to determine the insurance rates and premiums for Teachers' Retirement System benefit recipients and dependent beneficiaries, and present to the Teachers' Retirement System of the State of Illinois, by April 15th of each calendar year, the rate-setting methodology (including but not limited to utilization levels and costs) used to determine the amount of the health care premiums.

However, Executive Order 2005-3, *Executive Order to Reorganize Agencies by the Transfer of Certain Healthcare Procurement and Administrative Functions Primarily of the Department of Central Management Services to the Department of Healthcare and Family Services* issued by the Governor on April 1, 2005 transferred the respective powers, duties, rights and responsibilities related to State Healthcare Purchasing from various departments, including CMS, to the Department of Healthcare and Family Services. The Executive Order states the statutory powers, duties, rights and responsibilities of the various agencies, including CMS, derive from various statutes including 5 ILCS 375 et seq. The functions associated with State Healthcare Purchasing intended to be transferred included rate development.

Department management stated that they did not interpret the statute as requiring premiums to be determined by both an increase of no more than 5% of the prior year and the amount to be paid by the Teacher Health Insurance Security Fund. The Departments' failure to present the rate-setting methodology to the Teachers' Retirement System by April 15 was purely oversight.

Failure to charge the correct premium rates to recipients is noncompliance with State statute. (Finding Code No. 09-2, 08-2)

RECOMMENDATION

We recommend the Department ensure health insurance premium rates are set for the Teachers' Retirement Insurance Program as required by the State Employees Group Insurance Act of 1971. We also recommend the Department ensure adequate rate setting methodologies are established and make annual required reports to the Teachers' Retirement System.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department will ensure health insurance premium rates are set for the Teachers' Retirement Insurance Program as required by the statute. Furthermore, the Department will submit the rate-setting methodology (including but not limited to utilization levels and costs) used to determine the amount of the health care premiums to the Teachers' Retirement System by April 15, 2010.

PRIOR FINDINGS NOT REPEATED

For the Year Ended June 30, 2009

A. **FINDING** (Third party internal control reviews not obtained)

During the prior audit, the Department did not obtain an independent internal control review of its third parties involved with the processing of health insurance claims for one of the four service providers contracted by the Department.

During the current audit, the Department obtained all four third party independent internal control reviews. (Finding Code No. 08-1)